

Money

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NEVER SLEEPS



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SPRING 2012

The **big** Picture



"He who promises to rob Peter to pay Paul can count on Paul's vote."

George Bernard Shaw

Every four years when the US Presidential election rolls around, we always hear that "this" one is the most important one ever. Well, the 2012 US Presidential election, given the place where the world is right now, might actually be THE most important ever. Why care? Well given the USA's position in the world, still being the largest economy at \$15+ Trillion, (three times as big as #2 China), given they are still the #1 military power and expected "global policeman", and for Canada, they are our neighbour and largest economic trading partner...just for those reasons (if not many more which can be listed)...yes... it matters and we should care.

In 2008, the USA voters swung to a hard left with Barack Obama. In the midst of the worst global recession in 70 years, frustrated with a growingly distant Bush administration, voters opted for "Hope and Change" and made history by electing America's first African American President.

But people seem to forget how weak a candidate Obama was in 2008. People were surprised he got the nomination for the Democrats, beating the Clintons, which may have been the best political machine of our lifetime. His immense

A Surplus of Rhetoric, A Deficit of Results

personal appeal was undeniable, but people forget that as late as fall of 2008 McCain led in the polls. It wasn't until September 2008 as the financial meltdown created chaos that Mr. Obama finally took over in the polls. And that was against a disorganized and disoriented Republican party, with a 72 year old candidate, inheriting the baggage from a very unpopular administration. And in the end, Obama won with just 53% of the vote.

Now in 2012, Obama's signature appeal, his passion at the podium, seems to have been blunted. For a man who famously campaigned on "Hope and Change", it has been anything but. Many polls now show that most Americans believe that America has become more partisan and more divided than ever. Can we remember a Congress this dysfunctional and this partisan?

That internal divide between "Peters" and "Pauls" has become a potent political force in the USA. Latest statistics show that nearly half of Americans pay no income tax and roughly 70% receive more from Washington in Social Security, Medicaid, Medicare and food stamps, than they pay in taxes. Mr. Obama explains his policies with "We're all in this together, and it's time that the wealthy paid their fair share." Interesting enough, while European

nations and even Canada have Value-Added Taxes, (paid by all consumers) which finance a huge portion of the costs for health care and other universal benefits, the USA has no such tax.

And while for much of the past few years, Europe has been at the centre of the global economic storm, there is a growing feeling that America can lift itself up by the bootstraps as it has done throughout history. The most important quality of Americans throughout history has been their resiliency. Of the world's wealthiest people in the world, Americans dominate the list. Most are self made people who found an idea, took a chance, and made history. And in the meantime, created a lot of jobs and paid a lot of taxes.

Of the twenty-one Europeans in the top 100, only eight were self made and most of them were more than 70 years old. I believe this subtle example underscores the kind of impact long-term class warfare has on entrepreneurship and generating significant wealth. Make no mistake, when someone becomes millionaire wealthy they create jobs for others, when they become billionaire wealthy they create many jobs that pay mortgages and college tuitions, and usually launch additional businesses which do the same. And let's not forget what they do for charity. America's two wealthiest are both self made (Gates & Buffet) and have donated the bulk of their wealth to charity, education and medical research. Just as an aside, Russia has 15 billionaires in the top 100, India has 7 and Brazil has 3, and everyone is self made. It's amazing how escaping government handouts can be so liberating.

In the new book, "The Haves and Have-Nots", World Bank economist Branko Milanovic points out that half of the world's top 1% of earners reside in the USA. The interesting aspect is that the magic number to be in the top 1% of global income is \$34,000 a year. In America, that amount of money is right above the poverty line and would qualify individuals for government assistance including food stamps. The median income on the planet is \$1,225 annually.

In the first three months of his Presidency, Barack Obama said that if in three years he hadn't alleviated the nation's economic pain, he'd be a "one-term proposition". When he took over the Presidency, US unemployment was 7.6% and the economy was tanking. Yes, he inherited a mess. But with full control of Congress his first two years, and creating more debt than all the USA's prior President's combined, the situation has actually gotten worse. Now he would have you believe that he and his policies have nothing to do with the current state of things. Responsibility, you see, lies with the wealthy, or as the Occupy protestors call them, the 1%. This small 1% is actually holding back the other 99% by not paying their fair share and not allowing government to invest in education, healthcare and innovation. Maybe the recent economic distress is attributable to a myriad of causes like the effects of globalization, expensive new high tech medicine, a huge debt burden, a burst housing bubble (by many spending over their means), and an aging demographic in North America which consume less but also strain the social safety net. Sure the growing equality is a problem in the Western World. I have three kids about to graduate from very expensive education and not even sure they

can get a job? But Obama's pretense that the wealthy are the root cause of this sick economy may be a great political ploy to get re-elected, but is a ridiculous argument.

He would leave voters to believe that raising taxes on the wealthy and corporations, raising maybe \$600-\$800 billion, would have a dent on the country's rapidly growing \$15 trillion debt with out-of-control entitlements? This tax hike would have, at most, reduced the most recent US deficit from \$1.3 trillion to \$1.22 trillion. Anything to avoid the addressing of the underlying structural problems which the President has done for three years, but has added nearly \$1 trillion to the national debt through a massive stimulus which didn't create a single job (but a gigantic pay off to Democrat interest groups such as teachers' pensions and public sector unions), he introduced a federally run negotiation of healthcare (known as Obamacare) which creates a new huge entitlement in a nation hemorrhaging from unsustainable entitlements, and has introduced more government regulation than any President in recent memory.

Most incumbent Presidents run on their track record, or perhaps on their stewardship, or maybe even policy. But after three years, higher unemployment, economic stagnation, and unprecedented deficits, what else can he run on except class warfare? This reinforces why throughout their history, Americans have rarely elected Senators for highest office. They have never managed a thing but perhaps show up for a vote in Congress. No, historically, they have elected Governors, who by the very name, have actually had to govern...like manage budgets, make tough decisions, those kinds of things. (But in 2008, both candidates were Senators by the way.)

In a recent New York Times article, Drew Westen, a committed Liberal and one of Obama's strongest supporters, said it best: "Those of us who were bewitched by his eloquence on the campaign trail chose to ignore some disquieting aspects of his biography." He added that Obama has accomplished very little before he ran for President, having never run a state or even a business. He had an unremarkable career as a law professor, publishing nothing in 12 years at the University of Chicago other than an autobiography. In the US Senate, Obama voted "present" (instead of "yea" or "nay") 130 times, often dodging difficult issues. (Investors Business Daily August 11, 2011)

Even the Congressional Budget Office (CBO) is at odds with the President. There is a growing divergence between the CBO economic forecast going forward and what the President has forecast. Remember, we are talking about budgets in the trillions of dollars, so a \$15 trillion economy with a miss of 2% is a material number. For 2012, the CBO has the nation's budget deficit reduced down to 5.5% but the Administration has it at 3.5%, a huge difference. Out to 2018, the CBO is still at 5.5%, while the administration has it at 2.5%. While it is utterly impossible to forecast that far out with the behemoth that is the US economy, the "spin" the Administration puts on it is they will "halve" the budget deficit without saying anything about rising total debt. This is how Europe got where they are. And if changes aren't made soon, our own province of Ontario will be there as well.

We are heading into an unprecedented era when government debt will be subject to brutal compounding. Central banks and politicians have kept the money flowing to avoid the pain. The US National debt is at \$16 trillion. It was \$10 trillion when Obama became President. 40% of that debt matures in one year or less. The average maturity of all US debt is 4.3 years. All of this debt has been rolled over at historically low rates. The entire tax take of the USA is \$2 trillion per year. This will barely cover the interest on the debt let alone everyday operations. In other words, the US will have to borrow huge amounts in the near future to stay solvent; thus the argument for inflation and gold. It doesn't have to end up that way, but we need the political will to quickly take the pain. This President has made it clear he is not willing to do so. He has proposed nothing but short term incentives, short term spending programs, and nothing in the way of serious tax reform or reforming bloated government. His tax cut proposals are temporary, not permanent. His tax incentives are temporary, his government intervention in businesses, permanent.

On the Republican side, it looks like Willard M. (Mitt) Romney is building a methodical march to his party's nomination. He seems to be having a hard time bonding with the independent voters because he seems like a stiff, boring "Ken doll". We've seen what "hip" candidates can do... Sarkozy, Berlusconi, and yes, Obama. Maybe let's give boring a try for a while.

Despite all the attacks on Romney by his own Republican colleagues, early polls show him neck and neck with Obama in a general election. And he hasn't even begun that campaign yet. Romney in 2012 is more formidable than McCain in 2008, and that's why the Democrats fear him and have already begun the "spin" – he's a flip flopper, he introduced Romney-Care in Massachusetts, etc... McCain couldn't confront Obama in 2008 on his record; there wasn't one. Obamacare is so unpopular with the US public, and 20% of Democrats have left the party since Obama's election. Obama's people will try to paint Romney as a removed "fat-cat", and whatever failures he may have had as a Republican Governor in a strongly Democratic state, will seem pale in light of a \$16 trillion debt. Can Obama rally the high turn out on election-day which helped him win last time? I'm not so sure the voters haven't seen through it, as the fact is it takes more than being good at the podium to be President of the United States.

It turns out Romney's critics will say he's Mormon, paid \$6.2 million in taxes last year and donated \$3 million to charity. I say bravo. So he put \$6 million into the system for services and he's a bad guy? He has values, seems to be a good family man, and his resume' at every stop has been a success. The fact that he's worth a reported \$300 million is a bonus to me. He can't be bought for an envelope of cash and that he's not in it for the money, but maybe the right reasons. A little Romney vignette... Romney's father George Romney was CEO of American Motors before he left politics that saw him elected as Governor of Michigan for three terms. He later ran for the GOP nomination for President but fell short and later served in the Nixon cabinet. George Romney once turned down a \$100,000 bonus in 1960 he was entitled to, telling his board that executives need not make

more than the \$225,000 (or \$1.4 million in 2012 dollars). In fact, he turned down \$268,000 over a five year period. If that's the cloth that Mitt is cut from, maybe we need to take a closer look?

It's easy to dismiss Mitt Romney as being out of touch. But how many stories do we hear of people refusing to do jobs they feel are beneath them? Or young people who are drop outs but yet look down their nose at a job at McDonald's? (No offense to a great corporation!) I would argue maybe those people are really out of touch. But today's social networking youth who think that people famous for being famous (think Paris Hilton, the Kardashians, etc) are "in touch"? The more I think about it, the more in-touch Romney might actually be, having built companies, created jobs, run the Olympic Games, and actually governed as a Republican in a state which is a Democratic hot bed.

Most pundits believe with the US economy improving Obama is a shoe in for re-election, despite unemployment being still over 8%. It is true historically, that it has been very difficult to unseat any incumbent. In fact, my research shows that the Republicans have unseated sitting Democrats only twice in their entire history. The first time 100 years ago in 1912, the second in 1980 when a "B" actor named Ronald Reagan unseated Jimmy Carter. Reagan went on to be recognized as one of the best President's the USA had. I think we are about to have a "Reagan moment" where he and Margaret Thatcher of Britain philosophically carried the world economies into a long prosperous period.

We need good managers to be elected now, not just in the USA but globally. Good managers with the political will to do what's right.

Not only would it be nice to have a "Reagan moment" right now; we are actually in desperate need of one. Let's see how it plays out. The United States throughout its history has had a knack of electing the right person at the right time.

QUOTES

"I've missed more than 9000 shots in my career. I've lost almost 300 games, 26 times. I've been trusted to take the game winning shot and missed. I've failed over and over and over again in my life. And that's why I succeed."
Michael Jordan

"It has been said that politics is the second oldest profession. I have learned that it bears a striking resemblance to the first." Ronald Reagan

"The greatest way to live with honor in this world is to be what we pretend to be." Socrates

"Our tax system still siphons out of the private economy too large a share of personal and business purchasing power and reduces the incentive for risk, investment and effort – thereby aborting our recoveries and stifling the national growth rate." President John F. Kennedy (Jan. 24, 1963 to Congress)

Around the globe

Canada (Strong Buy)

- Healthy banking sector
- Strong dollar thanks to high oil prices
- Seems we are totally contingent on news out of China, if good, watch mines, metals, commodities, etc.

U.S.A. (Strong Buy)

- Housing seems to be improving
- Retail sales, manufacturing numbers good
- The Fed is on the market's side
- With US election coming, good chance may see all time highs sometime in 2012

Europe (Only Multi Nationals)

- Still lots of risk – Are Portugal and Spain up for next bailout money?
- Going to take some time to adjust, still 50/50 chance they go into recession

Asia (Depends)

- If China manufacturers a soft landing, then a strong buy
- Is 7-8% growth enough for them?

Emerging Markets (Long Term Buy)

- Still a solid long term story thanks to demographics and expanding middle class

NOTES

Slovakia, which gained its independence in January 1993, has worked diligently to embrace free markets with low taxes to become a player in the world. Despite being the second poorest nation in the EU, it has enjoyed impressive GDP growth in recent years (10% in 2007, 8.9% in 2006) and has attracted strong foreign direct investment (up 600% from 2000 to 2006, and reaching \$22,000 per capita in 2008). Their secret? Low taxes, competitive wages and a relatively educated workforce – the exact opposite of would be cures in America and the older members of the EU. (Corporate tax in Slovakia is 19% vs. 25% in Greece, 30% in Spain, and 32% in Italy.)

Percentage of men and women who survived Cancer 5 years after diagnosis:

USA	65%	England	46%	Canada	42%
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Number of MRI scanners per million:

USA	71	England	14	Canada	18
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Percentage of patients diagnosed with diabetes who received treatment within 6 months:

USA	93%	England	15%	Canada	43%
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Percentage referred to a medical specialist who see one within a month:

USA	77%	England	40%	Canada	43%
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National Health Insurance?

USA	NO	England	YES	Canada	YES
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(Investor's Business Daily)

Percentage of each President's cabinet who had worked in the private business sector prior to their cabinet appointment (i.e. real business):

T. Roosevelt	38%	Truman	50%	Reagan	56%
Taft	40%	Eisenhower	57%	G. H. Bush	51%
Wilson	52%	Kennedy	30%	Clinton	39%
Harding	49%	Johnson	47%	G. W. Bush	55%
Coolidge	48%	Nixon	53%		
Hoover	42%	Ford	42%	Obama	8%
F. Roosevelt	50%	Carter	32%		

(Investor's Business Daily - Jan. 10, 2012)

LEARNING CORNER

Exchange Traded Funds (ETF) – Income Oriented

An exchange traded fund (ETF) is an investment vehicle that combines key features of traditional mutual funds and individual stocks. Like index mutual funds, ETFs represent diversified portfolios of securities that track specific indexes. Like stocks, they can be bought and sold (long or short) on an exchange throughout the trading day. In addition to trading flexibility, key ETF benefits include instant diversification, tax efficiency and transparency of cost and holdings.

Claymore Advantage High Yield Bond ETF (CHB) – 6.76% yield

Claymore Advantage Convertible Bond ETF (CVD) – 4.55% yield

Claymore Advantage Short Duration High Income ETF (CSD) – 4.40% yield

All pay monthly, are tax wise and distributions are all treated as 100% Return of Capital (ROC). These are not GIC alternatives and not “no” risk, but definitely “low” risk

A SPECIAL WELCOME TO ALL NEW CLIENTS WHO HAVE JOINED US

Thank you especially to clients who have mentioned our name to people they know. As a sign of gratitude, four times a year we'll randomly select a client who has introduced our services to a friend for special acknowledgement via a nice dinner at one of the finer restaurants in London.

PLEASE DON'T KEEP A SECRET FROM US!

We are very happy and proud of the clients we serve in our practice and we are always open to serve more clients just like you. Should you be talking to someone who is unhappy with their current advisor, or would like a second opinion we would be grateful if you passed on our number 519-675-2011 or 1-800-265-5911. Thanks for keeping us in mind.

Congrats, Laura B. Our winner this quarter!

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